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With the compliments of

THE NEW ZEALAND EMBASSY

For your information as discussed.

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INTERNATIONAL BUTTER MARKET

Market Size

The international market for butter is very small in relation to world production. The most recent (March 1981) USDA Foreign Agriculture Service dairy circular bears this out. The following is an analysis of the data on butter imports contained in the circular.

WORLD BUTTER IMPORTS

(000 tonnes)

	1977	1978	1979	1980	1981*
Total	703	745	860	883	894
Less EC Intra-Trade and Imports from New Zealand	-548	-618	-596	-585	-609
"Open" Market	155	127	264	298	285
Of which					
Eastern Europe	19	22	35	35	48
Western Europe	20	25	18	24	22
South America (Selected)	21	18	21	26	26
North America	1	5	1	1	1
Asia (Selected)	18	18	12	12	13
South Africa	-	-	3	-	-
Soviet Union	76	39	174	200	175

* Projected

Statistical data available from other independent sources supports this analysis. Refer in particular to the tables produced by the GATT Secretariat for meetings of the Milk Fat Protocol Committee of the International Dairy Agreement (DPC/F/W/1 Rev 4 of 26 March 1981).

This market is obviously not capable of absorbing significant quantities of product available on a temporary basis, particularly if sales to the Soviet Union are put to one side. Much of the trade is in the form of AMF (butteroil). Other characteristics of the market include the following;

(i) Demand is very unstable with import requirements of individual countries subject to volatile swings.

(ii) Demand/market opportunities are very fragmented and there are few opportunities for market development as such. Where opportunities do exist in, for example, the Middle East, regular exporting countries/companies are involved with a heavy investment in the establishment of brand images, labels and plants. The sudden appearance of bulk butter supplies would seriously prejudice these market development efforts.

(iii) The expansion of the market which has occurred in recent years can be attributed almost solely to increased substantial imports by the Soviet Union.

(iv) It does not operate like a standard commodity market.

Forward Sales Opportunities

There is no significant gap in sales in the May-August period as has been suggested. The New Zealand Dairy Board

is involved in the negotiation of forward shipments on a continuing basis and has pointed out that May is a particularly sensitive period for price negotiations covering shipments from June onwards. These negotiations and deliveries would be critically disrupted by knowledge of prospective large U.S. tonnages becoming available in coming months.

Prices

As with other dairy products, prices on the international butter market are largely determined by the level of restitution (subsidy) payments made on exports by the EC. In more recent years the Community has phased down its restitution payments because of budgetary considerations but also because it has come to appreciate that market demand is relatively inflexible to price changes (i.e., it can sell just as much at a lower cost and cannot significantly expand its exports by competing on price). This has allowed prices to rise substantially. Traders operating in the international market appreciate these imperatives and have come to expect that prices will continue to move up.

Recently the EC intervention price for butter was increased by some nine percent as a result of the Community's 1981 farm price review. No adjustment has been made to the butter restitution payment so EC export prices have risen by an equivalent percentage. They are now the

equivalent of U.S.$2,500 tonne FOB.

Offers to the USDA of U.S.$1.05/pound ex-store are equivalent to a price of around U.S.$2,300 and even allowing for some internal freight margin would appear to be still well under the EC price. An EC reaction should be anticipated.

New Zealand Embassy

Washington D.C.

30 April 1981